



County of Los Angeles CHIEF EXECUTIVE OFFICE

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February 13, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

RESPONSE TO BOARD ORDER OF JANUARY 6, 2009 ON DATA MINING TECHNOLOGY AND PUBLIC ASSISTANCE FRAUD

On January 6, 2009, your Board unanimously passed a motion, introduced by Supervisor Antonovich, directing the Chief Executive Officer (CEO) to report back within 30 days with a strategy to:

1. Implement data mining technology to target fraud in the CalWORKs Stage 1 Child Care program by July 1, 2009.
2. Expand utilization of data mining software to all public assistance programs and work with the District Attorney (DA) to integrate utilization of the software with other fraud prevention programs.

BACKGROUND

In response to your Board Motion of May 29, 2007, the Chief Executive Office (CEO)'s Service Integration Branch (SIB) and Department of Public Social Services (DPSS) conducted a pilot between May and November of 2008 to determine the business value of implementing data mining technology for fraud detection and prevention. SAS Institute Inc. (SAS), whose software is used in the CEO's Adult Linkages Project (ALP), was selected as the vendor for the pilot. The pilot and the ALP have utilized the same data integration tools.

The application of data mining software in the pilot was limited to three primary data mining tools and the analysis focused on CalWORKs Stage 1 Child Care cases. The pilot used DPSS' administrative records on child care providers and CalWORKs participants during the period between January 2001 and December 2007. The software's fraud analysis capability was demonstrated in three categories:

- 1) Cases with characteristics placing them at a high risk for fraud;
- 2) Cases showing significant anomalies;
- 3) Potential fraud rings and collusion activities.

The pilot achieved an 85 percent success rate in detecting collusive fraud rings. The results of the pilot show that the use of data mining software as a fraud detection tool would have enabled cost avoidance in three areas:

- 1) *New Fraud Referrals*, resulting in an annual gross cost avoidance of at least \$2.2 million;
- 2) *Early Detection of Fraud*, resulting in an annual gross cost avoidance of \$1.6 million;
- 3) *Increased Efficiency*, resulting in an annual gross cost avoidance of \$3 million.

Therefore, the total annual gross cost avoidance in these areas was estimated at least at \$6.8 million, as measured during the piloted period of 2001 through 2007. Furthermore, the cost avoidance could possibly increase with further utilization of additional fraud detection tools not included in the pilot.

PROCUREMENT AND IMPLEMENTATION STRATEGY

As a result of the successful pilot, the CEO will implement a data mining solution for the CalWORKs Stage 1 Child Care Program upon completion of a competitive procurement process. The CEO will work with DPSS and County Counsel to complete a Request for Proposals (RFP) and solicit bids from vendors. The use of a competitive solicitation process for procuring data mining technology is in compliance with County, State, and Federal procurement guidelines and may make the County eligible to potentially draw down State and Federal funding to support the data mining solution. Concurrent with the competitive procurement process, DPSS will be submitting the required Advanced Planning Document (APD) to the State to request State and Federal support for the data mining solution.

The procurement process, including successful contract negotiations, is expected to take between six and nine months and, therefore, precludes the possibility of implementing a data mining solution in the CalWORKs Stage 1 Child Care Program by the July 1, 2009 deadline stipulated in the Board motion. The Children and Families' Well-Being and Operations clusters will work together to minimize any possible delays in the development of the RFP, including system requirements, so that the County can promptly begin generating the cost avoidance/savings associated with the data mining solution. The CEO will report back to the Board with a strategy for further expansion of the data mining solution into other public assistance programs upon completion of the initial implementation in the CalWORKs Stage 1 Child Care Program. At that time, the CEO and DPSS will also work with the DA to integrate the data mining solution with other fraud prevention efforts.

FISCAL IMPACT/FINANCING

Procurement of data mining software and the implementation of a data mining solution in the CalWORKs Stage 1 Child Care Program can be funded through the revamping of DPSS' Home Interview Program (HIP), conducted on all new CalWORKs applicants. As part of the eligibility determination process, DPSS currently conducts home interviews, through its HIP, on all new applications for CalWORKs. Any inconsistencies identified during the home interview may result in a referral for investigation of possible welfare fraud. For the most recent years, Fiscal Year (FY) 2007-08 and FY 2008-09, fraud was discovered in 0.25 percent of all cases where a home interview visit was made or attempted.

The HIP is mandated by the Board but not by the State. The current budget for the HIP Program is \$11.5 million, fully funding 73 positions. This program is 100 percent State funded through the CalWORKs Single Allocation. We propose to reduce the number of HIP staff, which DPSS has indicated would generate savings that could be leveraged to support the procurement and implementation of the data mining solution. According to DPSS, the staff positions would be absorbed into the Department's Food Stamps Program. To compensate for the staff reduction, the HIP would exclude applicants whose aid has been recently terminated and those who have had a home visit in the last 12 months from the requirement. A random sample of the remaining applicants would continue to receive home visits.

Please let me know if you have any questions or your staff may contact Miguel Santana at (213) 974-4530.

WTF:SRH:MS
KH:MM:am

c: Executive Officer, Board of Supervisors
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 Chief Information Officer
 Director of Child Support Services
 Director of Children and Family Services
 Director of Community and Senior Services
 Internal Services Department
 Director of Public Social Services
 District Attorney